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ABSTRACT

Although 1985 was a relatively high-income year for agriculture, the farm sector is still under a great deal of financial stress. High direct government payments and increased Commodity Credit Corportion loans improved the cash income of U.S. farmers in 1985. However, the continuing decline in real estate values reduced farmers' asset and equity levels. This erosion of asset values has exposed both farmers and the institutions that provide them credit to an increasing level of risk. Financial difficulties of farmers throughout the country varied widely, with family-sized commercial farms and Midwestern cash grain farms experiencing the greatest stress. Lake State, Corn Belt, and Northern Plains farms held nearly 54 percent of all farm debt. Nationwide, highly leveraged farms (with a debt/asset ratio greater than 0.4) owed almost two-thirds of all farm debt. Total debt, however, declined by over $7 billion as lenders appear to be continuing to impose credit restraint on their borrowers and encourage them to reduce their debt and limit their capital spending. Thus, while government purchases and direct payments, accompanied by tight cost control measures, have allowed many of these producers to maintain a cash flow adequate for their obligations, continued federal government involvement may be necessary as the sector adjusts to lower commodity prices and possibly further declines in asset values. (MN)

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# Overview of the Financial Characteristics of U.S. Farms, January 1, 1986

Jim Ryan

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OVERVIEW OF THE FINANCIAL CHARACTERISTICS OF U.S. FARMS, JANUARY 1, 1986.
By Jim Ryan, National Economics Division, Economic Research Service, U.S. Department of Agriculture. ERS Staff Report No. AGES861113.

ABSTRACT

High direct Government payments and increased Commodity Credit Corporation loans improved the cash income of farmers in 1985. The continuing decline in real estate values reduced farmers' asset and equity levels. Financial difficulties varied widely. Family-size commercial farms and Midwestern cash grain farms experienced the greatest stress. Farms in the Lake States, Corn Belt, and Northern Plains held almost 54 percent of all farm debt. Nationwide, highly leveraged farms (debt/asset ratio greater than 0.4) owed almost two-thirds of all farm debt. Total debt declined by over $7 billion.

KEYWORDS: Assets, balance sheet, cash flow, debt, Farm Costs and Returns Survey, financial stress, insolvency, region, sales class, type of farm.

* * * *

## PREFACE

This report summarizes financial data from a variety of sources. Foremost, it provides a synopsis of:

FINANCIAL CHARACTERISTICS OF U.S. FARMS, JANUARY 1, 1986. National Economics Division, Economic Research Service, U.S. Department of Agriculture. Agriculture Information Bulletin No. 500. August 1986.

The author thanks numerous colleagues for their reviews and criticisms. Duane Hacklander, Mitch Morehart, Greg Hanson, and Mike Salassi provided especially valuable insights. For further information call Jim Ryan at (202) 786-1798.

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## SUMMARY

Traditional measures of farm sector conditions yield a mixed review of sector performance in 1985. The sector recorded a relatively high nominal income level, as net cash income increased and net farm income declined. Total farm debt decreased by over $7 billion during the year, suggesting that many farmers used any extra cash to pay off debt. The continuing decline in land values (a nationwide average of 12 percent in 1985) resulted in deteriorated asset and equity positions for most farmers. Almost 45 percent reported income insufficient to cover production and family living expenses for the year. The 40 percent of all operators with no outstanding debt are feeling relatively little financial stress.

Generally lower prices and fluctuating yields contributed to widely varying financial difficulties experienced by individual operators. Family size commercial farms (sales between $40,000 and $500,000), cash grain and general crop farms, and farms in the Corn Belt, Lake States, and Northern Plains, reported a disproportionate share of debt held by highly leveraged farms (debt/asset ratios greater than 0.4). Aided by continued support from government commodity payment and loan programs, a larger proportion of operations in the Upper Midwest generated positive cash flows, enabling them to meet financial obligations, including principal and interest payments on debt.

Declining asset collateral values have placed lenders at higher risk. The Farmers Home Administration's farm loan portfolio had the highest percentage of highly leveraged operations. Farms in the Corn Belt, Lake States, and Northern Plains held almost 54 percent of all debt in 1985. These regions have experienced the greatest decline in land values in recent years, suggesting potential problems for lenders in the future.

# Overview of the Financial Characteristics of U.S. Farms, January 1, 1986

Jim Ryan

## INTRODUCTION

During the last few years, many farmers have experienced financial difficulties. Lower commodity prices, reduced farm exports, and declining values of farmland have played a large role in the financial performance of farm businesses. Traditional measures of farm sector conditions yield a mixed review of sector performance in 1985.

## NET CASH INCOME

From the viewpoint of current financial liquidity, the farm sector improved in 1985. Lower production expenditures, high crop production levels, and continued support from Government commodity program payments and loans combined to generate record high net cash income (cash income minus cash expenses) (fig. 1). Government programs contributed more than $19 billion (43 percent) in cash support to the record $44 billion net cash income.

## NET CASH FLOW

Net cash flow of the farm sector is another indicator of resources available to meet current obligations. It measures the exchange of funds between the farm sector and other sectors of the economy. Adjusting net cash income to reflect changes in loans outstanding, changes in the liquid reserves of operators, net rent to landlords, and capital expenditures for the year resulted in an annual net cash flow that declined by almost $7 billion in 1985 (fig. 2), to its lowest level since 1977. Increased net cash income was offset by a large drop in the value of loans outstanding. The reduction in loan balances decreases funds available to farmers now, but should strengthen future income and cash flow positions by reducing interest expenses. Capital expenditures declined for the sixth consecutive year. Reduced capital expenditures improve current cash flows, but indicate that machinery and equipment are not being replaced. This has implications for future production capacity.

## NET FARM INCOME

Net farm income is the oldest and most widely recognized farm sector performance measure. It estimates the net value of production during the

Figure 1--Nominal Net Cash Income, 1982-85

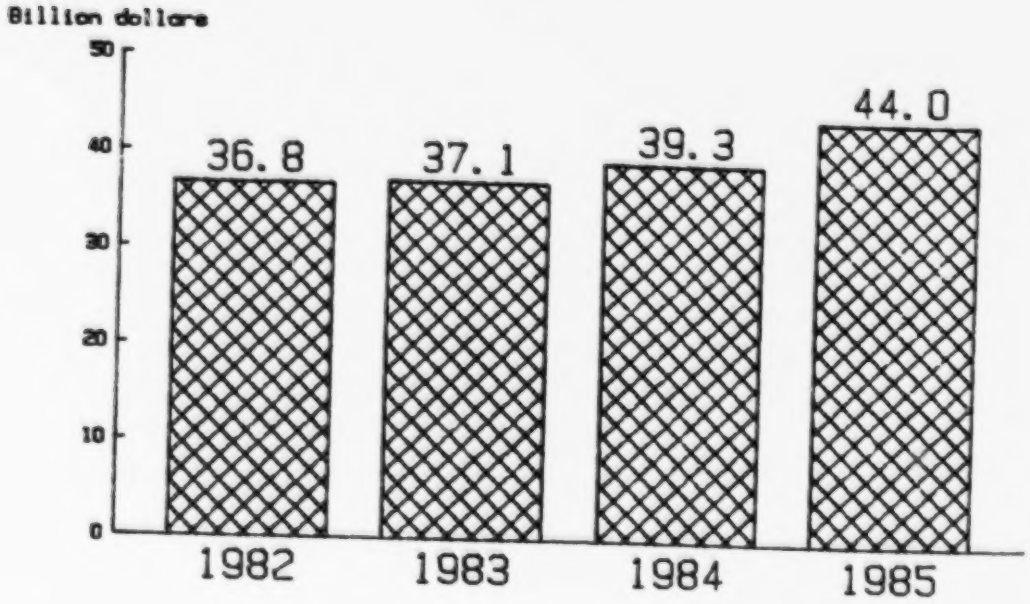



Figure 2--Net Cash Flow, 1982-85

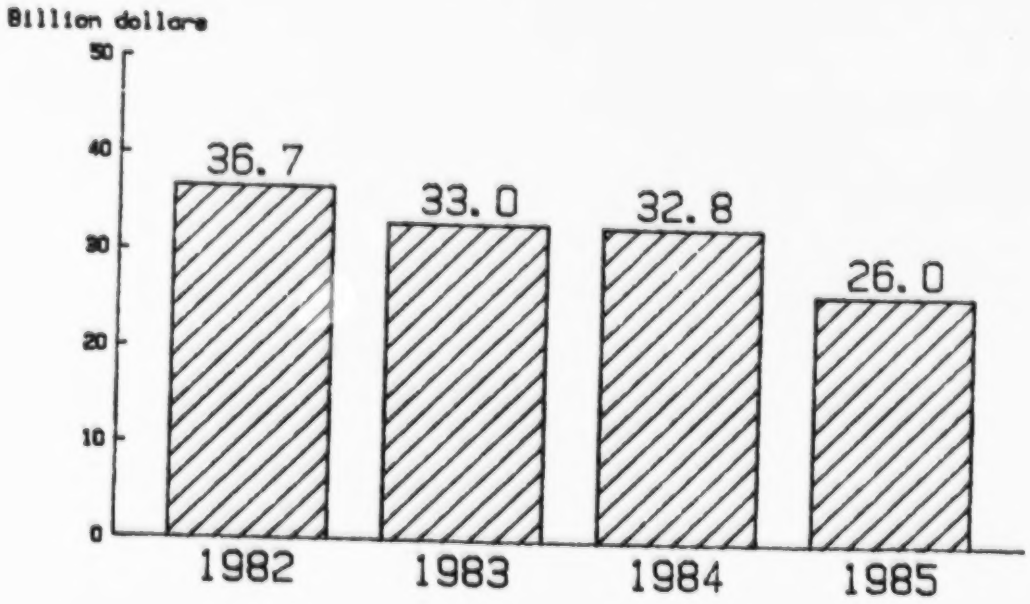
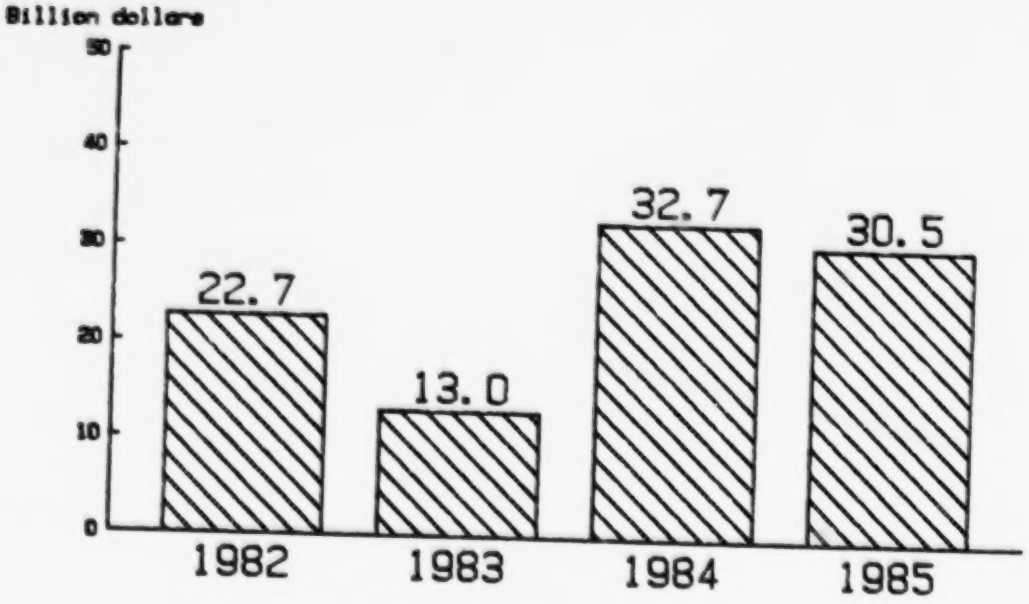


Figure 3--Nominal Net Farm Income, 1982-85

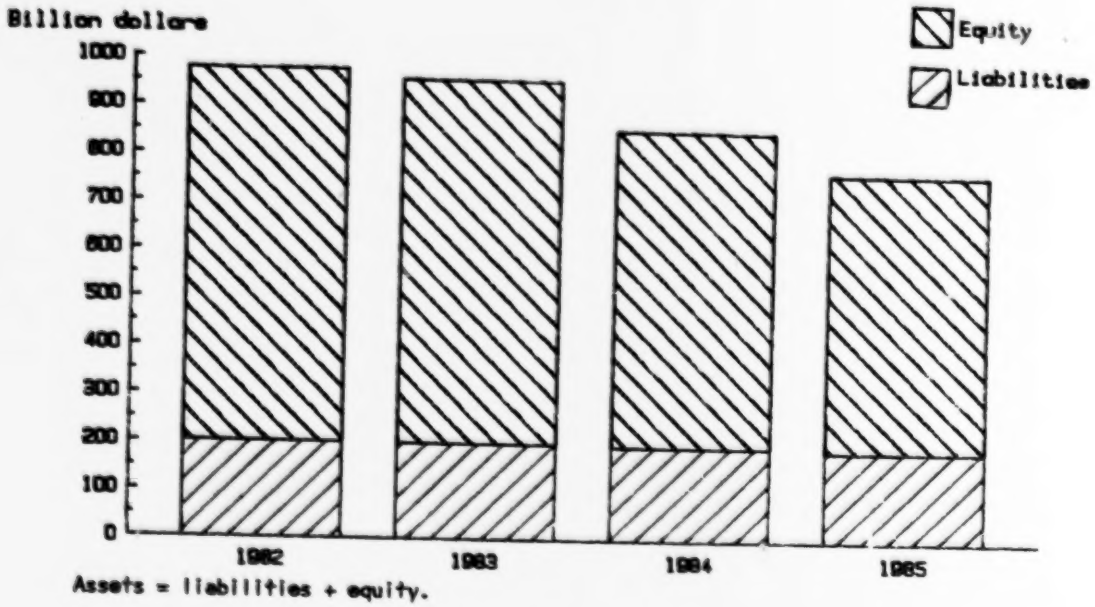



calendar year, with net cash income adjusted to reflect changes in inventories, depreciation of capital stock, and the value of nonmoney income and expense items. Even though net cash income was at record levels in 1985, net farm income declined by $2.2 billion (fig. 3). This decline stems from reductions in inventories and the nonmoney component of the income statement. While net farm income was down from 1984's record high, the 1985 total was still, in current dollars, one of the largest ever by the farm sector. The high net farm income level was achieved, despite reduced export levels and declining farm prices, by increased domestic marketings, Government program support, and reduced operating expenses.

## BALANCE SHEET

The balance sheet provides information about the composition of farm assets and debts at a certain time (fig. 4). Farm sector equity is the difference between assets and liabilities. Equity provides a measure of solvency--equity is what remains if assets of the sector are sold and used to pay off existing debt. Total farm sector debt declined by over $7 billion in 1985. By itself, this reduction should have improved the equity position of the farm sector. However, it was more than offset by a continued decline in farm asset values. Land values decreased for the fifth consecutive year. Since peaking in 1981, the nationwide average value of farm real estate has declined 29 percent (fig. 5). The 1985 decline of 12 percent accounted for an $80 billion reduction in farm asset values. Farm real estate debt decreased by $5.6 billion, indicating that the farm sector lost $74.4 billion in equity solely on farm real estate. Nonreal estate asset and debt

## Figure 4--U.S. Agriculture Balance Sheet, 1982-85




levels both declined, despite an $8.2 billion increase in Commodity Credit Corporation loans outstanding. The net effect of changing asset and debt levels was a $78-billion drop in equity in 1985, continuing a trend that has resulted in an equity loss of $253.7 billion since 1980 (a 30-percent reduction).

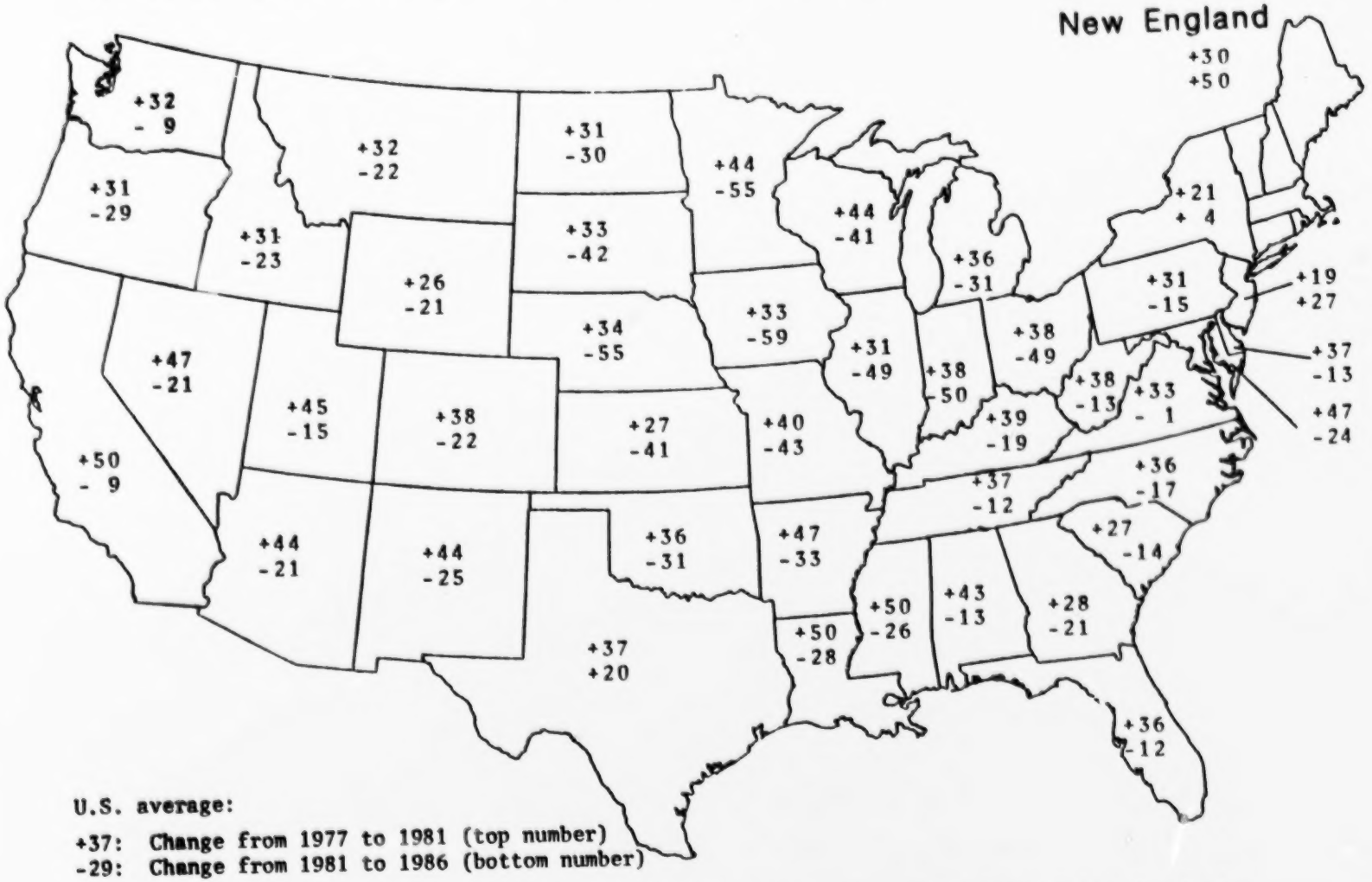
The more rapid decline in 1985 asset values relative to debt levels produced an increased debt/asset ratio for the farm sector. This ratio measures the relative extent to which the sector has borrowed against its assets, or leveraged itself. Higher leverage suggests greater exposure to risk.

Taken together, these traditional measures give mixed signals of the health of the farm sector.

- o High current income levels result largely from Government outlays to assist the sector. In an era of proposed budgetary restraint, such public expenditures may become more difficult to obtain in the future.
- o The current net cash flow level of the sector indicates moderate disinvestment in the sector, as debt and capital expenditure levels decline.
- o Lower farm asset values and equity in the 1980's suggest a worsening financial strength for the sector.

However, if farmers had responded more aggressively to the 'expand' and 'buy' signals they received during the late 1970's, the situation could be much worse today. From 1977-81, real estate assets in the farm sector

Figure 5. Change in Average Value of Farm Real Estate per Acre, 1977-81 and 1981-85.




U.S. average:

+37: Change from 1977 to 1981 (top number)
-29: Change from 1981 to 1986 (bottom number)

Based on index of average value per acre, 1977 = 100. All percentage changes measured relative to 1981 value.

increased by $272.5 billion, due largely to land values rising in response to higher current and anticipated future earnings. To an extent, this increase in asset values represented an expanded borrowing capacity for the sector, which, unless the farm was sold or borrowed against, remained an unrealized capital gain. Over this same period, real estate debt increased by $39.3 billion, suggesting that less than 15 percent of the increased credit capacity was converted to cash.

In 1985, real estate debt remained at 1981 levels, but the decline in real estate assets to near 1977 values resulted in a worsening of overall debt/asset ratios from 16.4 percent at the beginning of 1977 to 24.9 percent by the end of 1985. The situation would be dramatically worse today if farmers had borrowed more heavily against their appreciated real estate assets when they had the opportunity to realize these gains. Many of those using high debt financing for entering agriculture or expanding during the early 1980's are currently in negative equity positions (technically insolvent) and are probably experiencing negative cash flows as a result of high interest payments.

## DISTRIBUTION ISSUES

Aggregate farm sector data for 1985 indicate that most farmers had adequate earnings with which to meet principal and interest payments, reduce debt outstanding, and meet other financial commitments. However, asset values declined to such an extent that, on a sector-wide basis, farmers ended the year more highly leveraged (that is, with higher debt/asset ratios).

In an era when government policy discussions center on targeting of program benefits to those with the greatest need, the condition of individual operators within the sector is as relevant as conditions on a sector-wide basis. Critical issues involve the distribution of debt and earnings among farm businesses and farm families:

- Were farms generating a large volume of sales better able to meet financial obligations than smaller scale operations?
- Were family-size commercial farms in a particularly vulnerable leverage or cash flow position?
- Did farmers in highly leveraged financial positions have sufficient earnings to meet their cash obligations?

Just as appreciation in land values during the late 1970's was not evenly distributed across the country, declines in land values in the 1980's hurt farm operators in the Northern Plains, Lake States, and Corn Belt the most. Those areas are also most reliant on international markets for the feed and food grains they produce.

- Were farmers in these geographic regions in worse leverage and cash flow positions than farmers elsewhere?

The decline in land values has also placed farm lenders in a position of considerable risk. As land values fall, existing loans become a higher proportion of asset value. Average land values have decreased 29 percent since 1981--a loan that was 85 percent of 1981 value is 120 percent of 1986 value.

- Are particular lenders exposed to a greater degree of risk in their farm loan portfolio?

- Are their borrowers more highly leveraged or generating insufficient income to service debt and meet other commitments?

Data obtained in the U.S. Department of Agriculture's Farm Costs and Returns Survey (FCRS) permit evaluation of these distributional issues. Financial information supplied by over 11,000 farm operators show the following:

- Farm cash flow positions improved only slightly during 1985. Over 55 percent of all farms had positive cash flows, compared with 49 percent in 1984. As measured here, net cash flow is the balance remaining after all cash obligations, including interest, principal payments, and family living allowance, have been deducted from total income from all farm and nonfarm sources.

- Overall leverage positions worsened. Debt/asset ratios were greater than 0.4 on 21 percent of all farms in 1985, compared with 19 percent in 1984. The percentage of debt held by these highly leveraged farms increased from 62 percent to 66 percent.

- Nevertheless, it appears that much of the sector is not experiencing leverage problems. Nearly 40 percent of all farms were debt-free entering 1986, and another 39 percent had debt/asset ratios less than 0.4.

An accurate assessment of financial stress can be obtained by considering cash flow and leverage measures jointly. Farm operations with low debt levels may experience little financial stress despite negative cash flows. Likewise, heavily leveraged farms feel little stress as long as they generate sufficient cash income. Financial stress is experienced most acutely by highly leveraged farms that generate insufficient earnings to service existing debt.

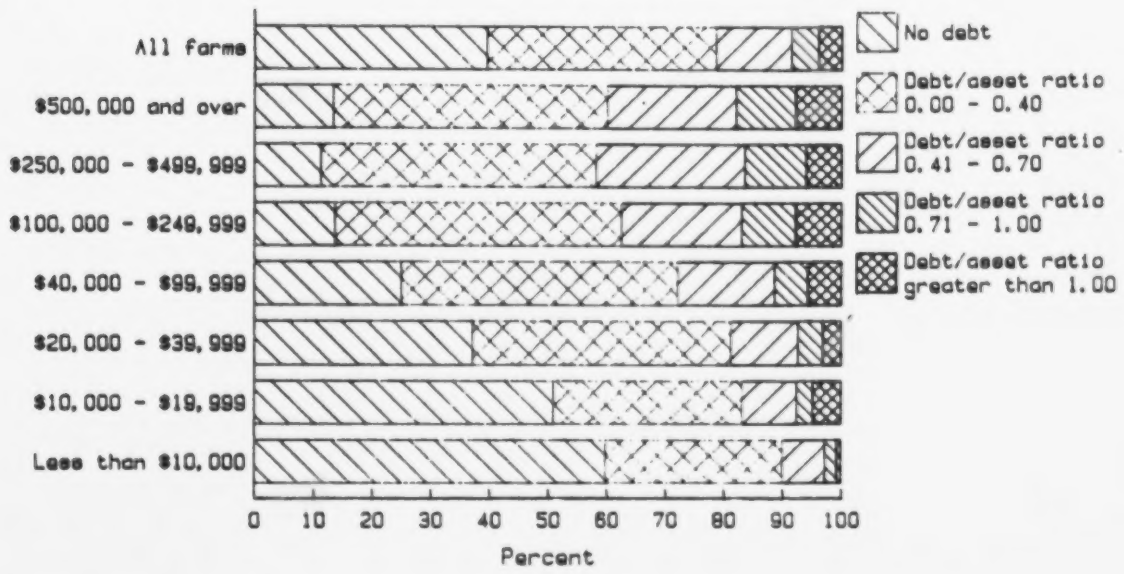
- The proportion of farms in the most vulnerable position (that is, with negative cash flows and debt/asset ratios greater than 0.4) decreased during 1985 from 12.6 percent to 11.2 percent of all farms.

- The percentage of reported debt held by these operators declined from 45 percent in 1984 to 37 percent in 1985.

This suggests an improvement in the condition of farms with the most serious financial problems. An alternative interpretation is that many of the financially stressed operators abandoned farming during 1985.

A farm operation is technically insolvent when its debt/asset ratio is greater than 1.0, that is, its outstanding debt is greater than the value of its assets. Less than 4 percent of all farms were in this position

## Figure 6--Distribution of Farms in Each Sales Class by Debt/Asset Ratio, January 1, 1986




as 1986 began, but two-thirds of these had financial difficulties compounded by negative cash flows during 1985.

The incidence of financial stress, as indicated by high leverage and inadequate earnings to service debt and meet other obligations, differs widely among farms. The degree of stress experienced appears to vary by volume of sales, type of farm, and region of the country.

Family-size commercial farms (annual sales of $40,000-$500,000) depend on farming for most of their income, and seem to be experiencing the greatest financial stress. Traditionally, farm policies focus on the family owned and operated businesses. Family-size commercial farms:

- Tended to be more highly leveraged (fig. 6, table 1).
- Reported 33 percent of farms had debt/asset ratios greater than 0.4, compared with 21 percent for all farms (table 2).
- Had negative cash flows on 52 percent of highly leveraged farms in 1985.
- Indicated 6.7 percent were technically insolvent, compared with 3.9 percent for all farms, with over two-thirds of these experiencing negative cash flows.
- Accounted for 38 percent of all farms, but carried 66 percent of the debt.
- Held 45 percent of all farm debt on highly leveraged family size farms.

Table 1--Distribution of farms and operator debt, and percentage of farms with negative cash flows, by sales class, type of farms and region, January 1, 1986 1/

| Item | Percentage of all U.S. farms | Percentage of all farm debt | Negative cash flows |
|---|---|---|---|
| | | Percent | |
| Sales class: | | | |
| $500,000 and above | 2.1 | 18.6 | 26.3 |
| $250,000-$500,000 | 5.1 | 18.2 | 26.0 |
| $100,000-$250,000 | 14.6 | 30.7 | 32.1 |
| $40,000-$100,000 | 18.4 | 17.1 | 42.3 |
| $20,000-$40,000 | 12.0 | 5.8 | 48.4 |
| $10,000-$20,000 | 11.1 | 3.4 | 53.6 |
| Less than $10,000 | 36.9 | 6.2 | 50.3 |
| All | 100.0 | 100.0 | 44.6 |
| Type of farm: | | | |
| Cash grain | 25.8 | 37.3 | 37.9 |
| Field crop | 6.0 | 4.2 | 53.3 |
| Vegetable & fruit | 4.3 | 5.4 | 42.0 |
| Nursery | 1.5 | 1.1 | 20.6 |
| General crop | 4.9 | 4.9 | 46.6 |
| General livestock | 39.1 | 26.6 | 48.2 |
| Dairy | 11.3 | 16.7 | 45.3 |
| Poultry | 2.1 | 1.6 | 29.4 |
| Other livestock | 5.1 | 2.5 | 47.9 |
| All | 100.0 | 100.0 | 44.6 |
| Region: | | | |
| Northeast | 7.7 | 4.8 | 44.8 |
| Lake States | 12.8 | 16.2 | 49.6 |
| Corn Belt | 21.2 | 23.6 | 37.6 |
| Northern Plains | 9.5 | 14.1 | 40.8 |
| Appalachian | 14.3 | 4.8 | 52.8 |
| Southeast | 5.6 | 4.2 | 44.4 |
| Delta | 4.4 | 3.7 | 49.5 |
| Southern Plains | 11.2 | 9.4 | 45.5 |
| Mountain States | 5.8 | 8.9 | 47.5 |
| Pacific States | 7.4 | 10.4 | 39.4 |
| All | 100.0 | 100.0 | 44.6 |

1/ Farm operator debt for farm purposes based on 1985 Farm Costs and Returns Survey.

Table 2--Distribution of debt owed by farm operators by debt/asset ratio and sales class, type of farm, and region, January 1, 1986 1/

| Item | Debt/asset ratio | | | |
|---|---|---|---|---|
| | 0 - 0.4 | 0.4 - 1.0 | Over 1.0 | All |
| | Percent | | | |
| **Sales class:** | | | | |
| $500,000 and above | 30.8 | 54.2 | 15.0 | 100.0 |
| $250,000-$500,000 | 29.7 | 57.3 | 13.0 | 100.0 |
| $100,000-$250,000 | 29.9 | 51.1 | 19.0 | 100.0 |
| $40,000-$100,000 | 35.6 | 45.9 | 18.5 | 100.0 |
| $20,000-$40,000 | 52.9 | 34.4 | 12.7 | 100.0 |
| $10,000-$20,000 | 34.3 | 39.1 | 26.6 | 100.0 |
| Less than $10,000 | 49.1 | 46.6 | 4.3 | 100.0 |
| All | 33.7 | 50.2 | 16.1 | 100.0 |
| **Type of farm:** | | | | |
| Cash grain | 28.6 | 53.1 | 18.3 | 100.0 |
| Field crop | 37.8 | 43.4 | 18.8 | 100.0 |
| Vegetable & fruit | 37.3 | 50.7 | 12.0 | 100.0 |
| Nursery | 44.3 | 30.7 | 25.0 | 100.0 |
| General crop | 30.8 | 47.5 | 21.7 | 100.0 |
| General livestock | 36.8 | 46.2 | 17.0 | 100.0 |
| Dairy | 34.1 | 55.4 | 10.5 | 100.0 |
| Poultry | 43.1 | 47.7 | 9.2 | 100.0 |
| Other livestock | 54.7 | 41.5 | 3.8 | 100.0 |
| All | 33.7 | 50.2 | 16.1 | 100.0 |
| **Region:** | | | | |
| Northeast | 49.7 | 41.2 | 9.1 | 100.0 |
| Lake States | 26.3 | 54.8 | 18.9 | 100.0 |
| Corn Belt | 27.2 | 56.1 | 16.7 | 100.0 |
| Northern Plains | 26.0 | 54.2 | 19.8 | 100.0 |
| Appalachian | 51.4 | 34.9 | 13.7 | 100.0 |
| Southeast | 33.4 | 51.3 | 15.3 | 100.0 |
| Delta | 29.2 | 42.2 | 28.6 | 100.0 |
| Southern Plains | 47.7 | 36.4 | 15.9 | 100.0 |
| Mountain States | 39.0 | 51.2 | 9.8 | 100.0 |
| Pacific States | 38.1 | 51.2 | 10.7 | 100.0 |
| All | 33.7 | 50.2 | 16.1 | 100.0 |

1/ Farm operator debt for farm purposes based on 1985 Farm Costs and Returns Survey.

Farms with sales greater than $500,000 accounted for 2 percent of all farms, and included a large proportion of high value specialty crop producers. In addition, these farms:

- Reported negative cash balances on only 26 percent of farms, even though 68 percent were highly leveraged.
- Generally earned sufficient income to service higher debt loads.
- Held almost 19 percent of all farm debt.

Farms with sales less than $40,000 had larger income from nonfarm sources (to offset any farm losses). However, operators still reported negative cash balances on over 50 percent of these farms. In addition, these smaller operations:

- Accounted for almost 60 percent of all farms, but owed less than 16 percent of all debt.
- Had a higher proportion of farms with little or no debt.

Cash grain farmers were the most indebted operators. They accounted for less than 26 percent of all farms, but carried 37.3 percent of all farm debt into 1986. Cash grain farms:

- Had over 71 percent of this debt held by highly leveraged farms.
- Reported 18 percent of debt held by technically insolvent farms.
- Accounted for over 40 percent of debt held by all highly leveraged farms.
- Had sufficient earnings to meet expenses, as less than 38 percent reported negative cash balances.

General livestock farms accounted for 39 percent of all farms, and owed 26.6 percent of all debt. Highly leveraged farms owed over 63 percent of the debt held by these farms. In addition, generall livestock farms reported that:

- Insolvent producers held 17 percent of debt.
- Nearly half (48 percent) of these farms failed to generate positive cash balances.

Over 53 percent of field crop farms had negative cash balances, while less than 21 percent of nursery producers had negative cash balances.

The Corn Belt is the most heavily indebted region of the country. Farms in this region carried 23.6 percent of all farm debt into 1986, with almost 73 percent held by highly leveraged farms. Relatively few Corn Belt farms reported negative cash balances, suggesting the ability to service their higher debt loads.

Midwest farms (Corn Belt, Lake States, and Northern Plains) held almost 54 percent of all debt owed by U.S. farm operators. Farms is this region have suffered the greatest land value depreciation in recent years. Over 73 percent of all farm debt in this region was held by highly leveraged farms, compared with an average of 58 percent for the rest of the country.

A continuation of the decline in land values, combined with the volume of debt currently outstanding, would worsen of the financial position of indebted farmers in the future. The potential for increased financial stress appears to be greatest for family-size commercial farms, cash grain and general livestock farms, and farms in the Midwest. To date, Government programs to support commodities produced by these farms have buoyed incomes to levels adequate to cover production costs, to service debt, and to provide for household expenses. A continuation of these policies may be necessary to maintain sufficient income levels in the future.

## AGRICULTURAL CREDIT PROSPECTS

While highly leveraged farms are at considerable risk, the potential impact of their inability to meet financial obligations could devastate lenders providing farm credit.

As 1986 began, technically insolvent (debt/asset ratio greater than 1.0) farms accounted for fewer than 4 percent of all farms, yet they owed more than 16 percent of the outstanding debt, and approximately two-thirds of them reported negative cash balances.

Highly leveraged farms (debt/asset ratio greater than 0.4) farms accounted for 21 percent of all farms, but owed two-thirds of all farm debt. Forty-seven percent of these farms reported negative cash balances.

The distribution of lender-held debt, by leverage position of borrowers, suggests that most lenders' portfolios are at some risk (table 3). FCRS results indicate that:

- Over 84 percent of Farmers Home Administration (FmHA) debt is held by operators with debt/asset ratios greater than 0.4, with over 35 percent held by technically insolvent operations.

- Less than 11 percent of Farm Credit System debt (Federal Land Banks and Production Credit Associations) is held by technically insolvent operations.

- Over 65 percent of Farm Credit System debt, however, is owed by borrowers with debt/asset ratios greater than 0.4, suggesting a potential for debt repayment problems in the future.

Differing credit control measures among lenders is changing the market share relationships among traditional farm credit suppliers (table 4). During 1985:

Table 3--Distribution of lender held debt by debt/asset ratio
January 1, 1986 1/

| Lender | Debt/asset | | | |
|---|---|---|---|---|
| | Less than 0.4 | 0.4 - 1.0 | Greater than 1.0 | Total |
| | Percent | | | |
| Commercial banks | 38.7 | 47.6 | 13.7 | 100.0 |
| Federal Land Banks | 32.5 | 56.9 | 10.6 | 100.0 |
| Farmers Home Administration | 15.4 | 49.3 | 35.3 | 100.0 |
| Production Credit Association | 42.0 | 46.2 | 11.8 | 100.0 |
| Commodity Credit Corporation | 32.1 | 54.0 | 13.9 | 100.0 |
| Other individuals | 39.9 | 47.9 | 12.2 | 100.0 |
| Life insurance companies | 39.9 | 48.6 | 11.5 | 100.0 |
| Merchants and dealers | 41.2 | 41.0 | 17.8 | 100.0 |
| Other farmers | 27.2 | 47.1 | 25.7 | 100.0 |
| All | 33.7 | 50.2 | 16.1 | 100.0 |

1/ Farm operator debt for farm purposes, based on 1985 Farm Costs and Returns Survey.

Table 4--Lender shares of farm debt, excluding CCC loans
January 1 1/

| Lender | 1986 | 1985 |
|---|---|---|
| | Percent | |
| Commercial banks | 29.6 | 28.6 |
| Federal Land Banks | 23.9 | 25.3 |
| Farmers Home Administration | 16.2 | 13.7 |
| Production Credit Association | 8.4 | 10.0 |
| Other individuals | 12.0 | 14.5 |
| Life insurance companies | 6.8 | 6.0 |
| Merchants and dealers | 1.8 | 1.9 |
| Other farmers | 1.3 | NA |

NA = Not asked in 1985 FCRS.
1/ Farm operator debt for farm purposes based on 1985 Farm Costs and Returns Survey.

- The Farm Credit System reduced the level of its outstanding loans, experiencing a decrease in market share from 35.3 percent of all non-CCC debt to 32.3 percent over the 1985 calendar year.

- FmHA share increased from 13.7 percent to 16.2 percent. Credit denial by private lenders has increased the role of the Farmers Home Administration in providing financing for those unable to obtain it elsewhere.

- Commercial bank share of debt increased from 28.6 percent to 29.6 percent. Bank reports support this survey finding, suggesting that banks are lending to former Farm Credit System borrowers, requiring real estate as collateral for short-term loans.

Generally, lenders appear to be continuing to impose credit restraint on their borrowers, encouraging them to reduce their debt and limit capital spending. Changing market shares suggest a shift from the Farm Credit System to either commercial banks or the Farmers Home Administration, depending on the credit-worthiness of the individual borrower.

## CONCLUSIONS

While 1985 was a relatively high income year for agriculture, the farm sector is still under a great deal of financial stress. Family size commercial farms, particularly cash grain and general livestock farms in the Midwest, have experienced an erosion of asset values. This exposes them, and the institutions that provide them credit, to an increasing level of risk. So far, Government purchases and direct payments, accompanied by tight cost control measures, have allowed many of these producers to maintain a cash flow adequate for their obligations. Continued Federal Government involvement may be necessary as the sector adjusts to lower commodity prices and possibly further declines in asset values.



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